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Stat Spotlight: Cash Rich Candidates For Tomorrows Kings

The stage is set for REITs and companies with surplus cash to capitalize on today's real estate credit crunch, unmatched in severity since the credit crunches of the late 1960s and middle 1970s.

Most of the losers in this credit cycle have already been identified by investors. National mortgage REITs like **Lomas & Nettleton Mtg.** and **Mtg. & Realty Trust** are out of the market, the latter in Ch. XI. Regional lenders like **BRT Realty Trust** and **CV REIT** (formerly Cenvill Investors) are taking a cautious and selective approach. Not many traditional money sources are left standing to take advantage of opportunities. We doubt that any of the companies and REITs already savaged by this credit crunch will be able to turn around quickly enough to make any real profits.

So where's the money going to come from? Two sources are suggested:

New lenders? Some have speculated that a whole new generation of mortgage REITs and mortgage lenders will spring up ready to fill the credit vacuum. We doubt it. Any new mortgage REITs, MLPs or companies would have to find new, non-traditional funding sources and that won't be easy. In the similar drouth in the late 1960s and early 1970s, Wall Street played a major role by raising nearly $10 bil. of equity capital to fund a new generation of short-term mortgage lending REITs, a process that spanned four years and led to fatal excesses. Bottom line: New mortgage lenders aren't likely to appear on the scene in large numbers anytime soon.

Today's cash rich operators? Far more likely is that today's highly liquid and well regarded equity and mortgage REITs and companies will try to tap the opportunity of a decade. Some names we've turned up in looking for new and expanded money sources may surprise you, but we think there's good evidence that they will play an expanded role.

We discussed the credit crunch in REALTY STOCK REVIEW on April 27 and May 11, but our phone calls tell us it remains Topic A for 1990. Hardly a day goes by without our receiving one phone call or letter asking if there are any REITs or mortgage lenders out there able to finance all manner of projects. Despite all the soothing words put out by Federal bigdomes, this credit crunch is a real doozie.

But there are some signs the worst may be behind. But first look at some late bulletins from the credit wars:

Cash is King. Donald Trump made headlines recently by proclaiming that "Cash is king," saying he planned selling

NOTE FROM THE PUBLISHER

Effective June 30, 1990, new and renewal subscriptions to REALTY STOCK REVIEW will become the responsibility of MJH Research Associates. Subscriptions entered before that date will remain the responsibility of Audit Investments Inc., creator and publisher of RSR since 1970. Kenneth D. Campbell will remain editor of REALTY STOCK REVIEW responsible for RSR's editorial content.

Audit is taking this step to insure an orderly transition of responsibility for publishing and delivering REALTY STOCK REVIEW while maintaining RSR's editorial vitality and independence. The passage of years makes it mandatory that new blood be introduced into RSR.

We've chosen MJH Research Associates, an entity formed by Michael J. Houston, to carry on the RSR tradition. Mike Houston joined the Audit staff three years ago and has demonstrated the abilities needed to pick up the duties of publisher, which involves handling circulation, advertising, printing and delivery of your RSR. In April MJH took over the publishing responsibility for REALTY STOCK DIGEST, our companion service.

We believe the transfer will enhance REALTY STOCK REVIEW's service to you by permitting Ken Campbell, your editor since 1970, to devote more time to research, portfolio strategy, and money management while freeing him of the many administrative duties of the publisher's office. K.D.C

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some assets to raise cash for the big bargains he saw on the horizon. Now the news media are filled with stories that The Donald is negotiating with his banks, and that the New Jersey Casino Control Commission is worrying about whether the three Trump casinos in Atlantic City can carry their ominously heavy $1.5 bil. debt.

Trump: The Meaning. Not since William Zeckendorf Sr. and his debt-laden Webb & Knapp slid beneath the waves in the mid-1960s has the life-and-death struggle of one real estate mogul capsulized so dramatically the liquidity throes of many real estate operators today. But when the giants are tottering, know that pressure is at its peak and can only wind down. And however The Donald drama plays out, the fact that a nationally known realty giant may be brought to his knees by today's credit squeeze speaks eloquently about the severity of this credit pinch and real estate recession.

S&Ls: Some Bend. Last week Federal regulators bowed to homebuilder pressure and decided to relax a tough new rule spawned by the S&L bailout. Now they will phase in over 18 months — instead of enforcing immediately — one harshly criticized rule limiting S&L loans to one borrower to 15% of the S&L's capital. But only the 1,185 S&Ls that meet beefed up capital rules can make such loans.

Most S&Ls remain effectively shut out of active construction lending by the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) enacted by Congress last August. FIRREA clamped down on S&L lending to homebuilders for land acquisition and home construction and since an estimated 50% to 70% of homebuilding depended on S&L loans, FIRREA virtually guaranteed a deep housing recession.

Banks: No Over-Reaction. Federal regulators are keeping a watchful eye for new bad realty loans while saying they don't want to pressure banks into overly-stringent lending. Comptroller of the Currency Clarke said his office "was taking steps to encourage bankers not to overreact" to stricter standards.

Some robins signal a possible credit spring ahead: New York City banks have sent loan representatives to some recent realty company meetings with security analysts in an effort to drum up business. Other banks are soliciting new realty loan applications. But Federal regulators also are watching for future bad realty loans. Comptroller Clarke told Congress this week his office had identified new geographic regions where weakening real estate values could hurt banks. The regions weren't identified but problems were said to be less severe than in New England.

Cash to Invest. Hopeful as these signs may be, we believe it will be sometime before a true thaw arrives in credit markets. Since early May, medium and long-term Treasury bonds have dropped nearly one-half percent in yield on market expectations of easier credit. But the Federal Reserve has so far played Silent Sam, refusing to lower the short-term Federal funds rate as a signal that Fed policy is moving to ease credit.

This means that well-capitalized companies and REITs are ideally suited for major expansions. Most have already lined up financing and can make commitments. But most are very choosy in their investment requirements, so don't expect any of the entities named below to report major increases in invested assets anytime soon.

To zero in on likely candidates to capitalize on this credit squeeze, we looked at the balance sheets of 26 large REITs in three major groups: Pure equity REITs, healthcare leaseback/mortgage REITs, and mortgage REITs. Our tally shows that parts of the REIT industry are in the financial pink with about 10% of assets or $686 mil. held in cash or equivalents. All three groups have lots of cash stashed away for investment. Because REITs rarely borrow from banks unless they have immediate use for funds, this cash horde means that many REITs raised equity in 1989 and early this year when they could and haven't yet deployed funds. With the credit crunch peaking, they now should use this money. The amount of cash held by each REIT is shown in the accompanying Table I.

TABLE I - CASH HOLDINGS BY REITS

REIT	Bal.Sht. Date	Mil. $ Assets	Cash	Cash Per Sh.	Debt/ Equity
EQUITY REITS					
BRE Props.	Apr.	$217M	$10.6M	$1.34	0.41
Dial REIT	Mar.	118	13.0	2.43	0.32
Federal RI.	Mar.	562	60.7	3.76	1.88
First Union	Mar.	365	0.3	0.02	1.33
HRE Prop.	Jan.	145	5.2	0.95	0.18
IRT Prop.	Mar.	197	15.3	1.25	1.23
Landsing	Mar.	145	1.4	0.22	0.32
New Plan	Jan.	301	163.6	4.69	0.07
Penn. REIT	Feb.	66	26.5	3.23	0.12
Prop. Tr. A.	Mar.	79	1.7	0.34	0.70
REIT Calif.	Mar.	108	5.8	0.78	0.22
Santa Anita	Mar.	219	54.1	4.90	0.43
Utd. Dom.	Mar.	237	4.1	0.36	0.54
Wash. REIT	Mar.	106	26.8	1.73	0.10
Weingarte	Mar.	422	53.1	3.22	0.44
Western Inv.	Mar.	299	27.2	1.70	0.33
TOTAL EQ.		$3,584	$469.2	$2.39	0.54
HEALTHCARE REITS					
Amer. Hlth.	Mar.	$427M	$54.3M	$3.70	0.55
Hlth. Care Pr.	Mar.	441	6.2	0.54	0.67
Hlth. & Rehb.	Mar.	206	11.6	0.73	0.50
Hlth. Cr.REIT	Mar.	188	0.3	0.0	1.46
Meditrust	Mar.	726	16.2	0.86	1.35
TOTAL HLTH.		$1,988M	$88.5M	$1.32	0.87
MORTGAGE REITS					
BRT Realty	Mar.	$224M	$3.2M	$0.43	1.00
CRI Insur.	Mar.	586	102.0	5.07	1.13
Del-Val Finc.	Mar.	182a	22.3	3.23	0.85
L&N Housing	Mar.	50	0.3	0.12	0.29
RPS Realty	Dec.	240	0.5	0.02	0.12
TOTAL MTG.		$1,282	$128.3	$1.93	0.71
ALL REITS		$6,584	$686.0	$2.08	0.65

Equity REITs

Equity REITs are clearly cash kings today. The 16 equity REITs surveyed are in the best condition with $469 mil. cash, while debt is a low 0.54 times equity plus depreciation. This means the equity REITs can be cash buyers of any properties that may come tumbling out of banks or S&Ls. Part of this strong position is because five equity REITs — **Dial REIT, Federal Realty, United Dominion Realty, Weingarten Realty**, and **Western Investment** — all raised cash since the middle of 1989. But the cash kings, based on cash holdings per share, provide some surprises. Our nominees to profit from this credit crunch:

Santa Anita Realty (SAR:NYSE-$26.88), an equity REIT that is paired with the California racetrack of the same name for stock trading, has a whopping $4.90

per share in cash, or a very high 18% of SAR's current stock price. SAR raised $58.5 mil. in a March 1989 stock offering and has most of the funds still on hand. It is keeping cash available for two major investments: Development of Towson (Md.) Town Center into a mall center where SAR has committed to invest $7.5 mi. for a 32.5% interest with completion scheduled by Oct. 1991; and possible expansion of the Santa Anita (Cal.) Fashion Park by adding a fifth anchor to the major mall. SAR owns 50% interest in the mall. Realty funds available for distribution rose 10% in the Mar. qtr., buoyed by a 10% increase in on-track and off-track attendance in 1990 at Santa Anita track. Off-track simulcasting has stimulated growth in track results. The $2.08/sh. dividend provides a 7.7% yield and sooner or later we'd expect some modest dividend uptick as SAR benefits from investing its cash.

New Plan Realty Trust (NPR:NYSE-$17.13), a shopping center equity owner which invests mainly in smaller community strip centers, has $4.69/sh. cash, or 27% of current stock price. We commented on NPR in RSR May 25.

Federal Realty Investment Trust (FRT:NYSE-$21.13), a shopping center owner which buys urban centers for upgrading and remerchandising, holds $3.76/sh. in cash, matching SAR's 18% cash holding per share price. FRT is not exposed to many of todays weak retailers and is redeveloping a center on tony Wisconsin Ave. in Rockville, Md. Some Wall Streeters worry that FRT's debt is high, since its $389 mil. debt is 1.88 times equity plus depreciation, highest ratio among the equity REITs surveyed. If we are correct that the credit cycle will start winding down, then this debt load should diminish over time. We continue FRT in Portfolio Planner for longer term holding.

Weingarten Realty Investors (WRI:NYSE-$27.25), owner of strip shopping centers in Houston and the Southwest, holds $3.22/sh. in cash, result of a February 1990 stock offering that netted $77 mil. WRI in early May bought a 50% interest in a 118,000 sq. ft. Lake Charles, La. shopping center for an undisclosed price, using some cash. But it remains a strong cash player to expand holdings in the recovering Southwest. We commented on WRI's decision to begin expensing interest on some land holdings in RSR May 25. Since then WRI stock has held in the 27 range, where it has longer-term recovery attraction.

Pennsylvania REIT (PEI:ASE-$22.50), an owner of shopping centers and apartments, sports $3.23/sh. in cash as of Feb., equal to 14% of stock price. PEI cautions against placing too much emphasis on the holding, noting that it has commitments to construct and lease new shopping centers. Since we discussed PEI's exposure in the Ames Dept. Stores bankruptcy May 25, Ames announced closing of 188 more stores, mostly those in Illinois, Indiana, Ohio, North Carolina and Florida. This would seem to signal closing of the 70,000 sq. ft. Ames store (formerly a Zayres) in St. Petersburg, leaving PEI's four other Ames stores intact. After the new wave of closings, Ames will be left with 458 stores, which it says are profitable. Our opinion on PEI as a sound long-term value holds.

Other equity REITs with solid cash holdings are **BRE Properties** (BRE:NYSE-$26.63), $1.34/sh.; **Dial REIT** (DR:NYSE-$13.88), $2.43 per share (see RSR, May 25); **Washington REIT** (WRE:NYSE-$17.75), $1.73/sh.; and **Western Investment RET** (WRI:ASE-$17.63), $1.70/sh.

How are they spending their cash riches? BRE, whose cash buildup stems mainly from a $15.5 mil. loan repayment, is buying apartments: it has spent $8.9 mil. to buy Parkwood Apts., Mill Creek, Wa. and committed $4.2 mil. for a 64-unit addition to Shadowbrook Apts. in Redmond, Wa. BRE also has committed $5 mil. to repurchase its 9.5% convertibles, with $3 mil. already spent. Dial has committed $12.4 to loans to related entities building two shopping centers. Washington has just announced signing two large new leases totaling 145,000 sq. ft. at its S. Capitol St. building in Washington, D.C. and continues renovating a Rockville, Md. office bought last fall. Western during May paid $3.1 mil. cash for a 12-acre Reno, Nev. site for a 113,000 sq. ft. shopping center, and agreed to pay $7.7 mil. for the 98,000 sq. ft. Mercantile Row shopping center in Dinuba, Cal.

Health Care REITs

Health care REITs stand to gain immediately from today's unsettled credit markets in two ways: (1) Demand for funding in healthcare properties is enhanced by credit scarcity, and (2) lower interest rates on variable-rate bank borrowings tend to increase spread and boost EPS on a short-run basis. This double advantage is behind the surge of two healthcare REITs — **American Health Properties** and **Nationwide Health Properties** — to new 52-week highs in the last two weeks. Others may follow soon, and Health Care Properties is less than 5% below its 52-week high.

Begun as investors in leasebacks in properties owned by sponsors, many healthcare REITS have become independent and now make mortgage loans on health facilities as well as engage in leasebacks. Because the healthcare REITs rely more short-term bank credit to fund their investments, their tend to hold smaller amounts of cash at any one time, so our cash tally is an incomplete indicator of total liquidity. Most have solid bank lines to fund investments. Here's a brief rundown of what five of the biggest healthcare REITs are doing:

American Health Properties (AHE:NYSE-$23.50), an independent healthcare REIT specializing in acute care hospitals, held $3.70/sh. in cash at March 31, thanks to a Aug. 1989 offering which raised $64 mil. But AHE has effectively spent or obligated it cash: in the March qtr. it committed $19.4 mil. to build and own rehabilitation hospitals in Morgantown, W.Va. and Fayetteville, Ark., and in the May AHE paid $35.3 mil. to buy the 106-bed Elmwood Medical Ctr. in Metarie, La. AHE is enjoying strong earnings and cash flow, and boosted payout to $2.36 annual rate in the March qtr. We continue in Portfolio Planner.

Health Care Property Investors (HCP:NYSE-$30.50), a broadly diversified leaseback REIT with interests in 134 properties, has committed $29 mil. to purchase new facilities and fund construction loans. HCP's size and diversification give it the lowest cost of capital in the group, enabling HCP to continue to boost EPS and payout.

Health & Rehabilitation Properties Trust (HRP:NYSE-$9), a smaller REIT specializing in rehabilitation and psychiatric facilities, has grown more slowly because of care in selecting investments in its specialities. HRP raised $57 mil. last Dec. by selling new shares, using most funds to pay down bank debt and complete a property swap with Greenery Rehabilitation Group, its largest lessee and whose principals helped found HRP. In Jan. HRP invested an additional $29 mil. in mortgages to Continuing Health Care Corp. II, one of the largest privately owned health rehabilitation facility operators amalgamating four private entities to which HRP had previously loaned $27 mil. HRP will earn 13% on the total $56 mil. loan plus overages based on revenues. HRP has taken over and re-leased two Michigan facilities whose original operator faltered. Cash flow stayed level during this period but we now expect HRP to resume modest cash flow and dividend growth.

Health Care REIT (HCN:ASE-$13.50), a financier of smaller health facilities through leaseback and mortgages, continues to fund new investments while restoring health to problem facilities which surfaced in 1988 and forced a small dividend cut. So far in 1990 HCN has committed $34.5 mil. in mortgages and leasebacks, including $11 mil. mortgage for a 150-bed rehabilitation and nursing facility in Southington, Conn., and similar facilities in Penn. Dividends have moved up since the 1988 cut and we retain HCN on our Recovery group in Portfolio Planner.

Meditrust (MT:NYSE-$18.13), the largest and most diversified medical REIT with $726 mil. assets, has continued earnings and dividend momentum. MT raised $55 mil. in a Feb. stock offering, using proceeds to pay down debt. Management insists on investing only in nursing homes, rehabilitation and psychiatric facilities which it could operate if necessary. Cash available for distributions rose 19% in the Mar. qtr. and MT boosted payout to 1.8% to $2.29 annual rate. MT shares have been restrained however by concerns about an agreement under which MT's chairman and president will join a new corporation to buy Mediplex, MT's largest single lessee with about 40% of MT's assets, from Avon Products. We think this issue will be resolved in coming months to the benefit of MT shareholders.

Mortgage REITs

We think existing mortgage REITs will play a specialized and limited role in this credit crunch. That's because the mortgage REITs unscathed by deteriorating lending conditions have remained healthy simply because they stay withproven formulae. Comments:

CRI Insured Mtg. Assn. (CMM:NYSE-$7.88), a Nov. 1989 rollup of three smaller mortgage REITs and limited partnerships, holds the lion's share of cash in this group, $102 mil. or $5.07/sh. cash, result of borrowings arising out of the merger to let CMM expand its lending from discounted FHA-insured apartment loans. In the March qtr. CMM funded $41.3 mil. new loans, divided 70% GNMA certificates for liquidity, and 30% in FHA-insured project construction loans. These construction loans give CMM a premium yield with safety and liquidity and should let CMM expand earnings moderately. CMM earned 30¢/sh. in the Mar. qtr., unchanged, including about 10¢ from gains on prepayment of discounted loans. CMM's 27¢/sh. quarterly dividend includes partial payment of these gains. CMM owns about two-thirds of CRI Liquidating REIT (CFR:NYSE-$11.88), whose results are consolidated with CMM.

BRT Realty Trust (BRT:NYSE-$8), intermediate term mortgage lender which has specialized in New York area loans, cut payout 40% to $1..20 annual rate in the Mar. qtr. and continues a cautious approach to New York area loans. BRT however is offering short- and long-term participating mortgages on Texas apartments. Because of risks associated with New York, we keep BRT on our Avoid/Sell list.

Del-Val Financial Corp. (DVL:NYSE-$17.13) raised $21 mil. in a May 29 offering of 1.2 mil. shares at $17.63. Del-Val mainly lends to syndications sponsored by trust officers and most funds from this offering are so earmarked. We have no opinion on the shares.

L&N Housing (LHC:NYSE-$10.88), an investor in participating mortgages and managed by a unit of Lomas Financial Corp., isn't in the market for making new loans but is concentrating on upgrading substandard loans and using repayments to pay down $11 mil. bank debt.

RPS Realty Trust (RPS:NYSE-$6), an independent lender formed by the 1988 merger of several REITs originally sponsored by Integrated Resources, continues to make commitments for innovative loans on seasoned shopping centers, offices, and industrial properties. The least leveraged among the mortgage group, RPS hopes to expand fundings significantly in 1990. In the current climate, RPS should be able to expand lending. We see modest earnings and dividend growth and expect RPS to get a better yield as the year progresses.

MARKET PULSE: FIRMING?

Realty stocks have held some ground in the first two weeks of June. The big winners for the period are the health care REITs (**American Health Properties** and **Nationwide Health Properties**) which had experiences an exdended period of disfavor. For the period new highs hit 7 and new lows 27 and break down as:

	New	New	Net	-% of All Stocks-	
Week	Highs	Lows	Highs	Highs	Lows
Jun. 8	4	12	-8	4.9%	6.2%
Jun. 1	4	19	-15	0.8	5.8
May 25	5	23	-18	0.8	5.9
May 18	5	27	-22	0.9	5.5
May 11	5	28	-23	1.2	5.3
May 4	0	23	-23	0.0	3.3
Apr.27	0	22	-22	0.0	2.7
Apr.20	2	29	-27	0.7	4.6
Apr.12	1	23	-22	0.4	4.6
Apr. 6	2	18	-16	0.6	3.0
Mar.30	1	20	-19	0.3	4.3